United Community Bancorp
Form 10-Q
February 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2011

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to _____________

Commission file number: 0-51800

United Community Bancorp
(Exact name of registrant as specified in its charter)

United States of America	36-4587081
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

92 Walnut Street, Lawrenceburg, Indiana 47025
(Address of principal executive offices) (Zip Code)

(812) 537-4822
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes S No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer £ Accelerated filer £ Non-accelerated filer £ Smaller Reporting Company S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No S

As of February 10, 2012, there were 7,840,382 shares of the registrant's common stock outstanding, of which 4,655,200 shares were held by United Community MHC.

UNITED COMMUNITY BANCORP

Table of Contents

Part I.	Financial Information	Page No.
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Financial Condition at December 31, 2011 and June 30, 2011	1
	Consolidated Statements of Income for the Three and Six Month Periods Ended December 31, 2011 and 2010	2
	Consolidated Statements of Comprehensive Income for the Three and Six Month Periods Ended December 31, 2011 and 2010	3
	Consolidated Statements of Cash Flows for the Six Month Periods Ended December 31, 2011 and 2010	4
	Notes to Unaudited Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	34
Item 4.	Controls and Procedures	35
Part II.	Other Information	
Item 1.	Legal Proceedings	36
Item 1A.	Risk Factors	36
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3.	Defaults Upon Senior Securities	36
Item 4.	Mine Safety Disclosures	

Item 5. Other Information	36
Item 6. Exhibits	36
Signatures	37

Part I. Financial Information

Item 1. Financial Statements

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, except share amounts)	December 31, 2011	June 30, 2011
Assets		
Cash and due from banks	$ 16,644	31,159
Investment securities:		
Securities available for sale - at estimated market value	26,058	49,230
Securities held to maturity - at amortized cost	543	564
Mortgage-backed securities available for sale - at estimated market value	99,768	74,119
Loans receivable, net	285,709	286,173
Loans available for sale	307	196
Property and equipment, net	7,277	7,396
Federal Home Loan Bank stock, at cost	6,588	2,507
Accrued interest receivable:		
Loans	1,245	1,291
Investments and mortgage-backed securities	601	681
Other real estate owned, net	645	139
Cash surrender value of life insurance policies	10,136	7,882
Deferred income taxes	2,746	2,765
Prepaid expenses and other assets	5,079	5,060
Goodwill	2,522	2,522
Intangible asset	949	1,028
Total assets	$ 466,817	472,712
Liabilities and Stockholders' Equity		
Deposits	$ 407,443	413,091
Advance from FHLB	1,333	1,833
Accrued interest on deposits	36	44
Accrued interest on FHLB advance	2	3
Advances from borrowers for payment of insurance and taxes	302	230
Accrued expenses and other liabilities	2,925	3,184
Total liabilities	412,041	418,385
Stockholders' equity		

Preferred stock, $0.01 par value; 1,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 19,000,000 shares authorized, 8,464,000 shares issued and 7,840,382 shares outstanding at December 31, 2011 and June 30, 2011	36	36
Additional paid-in capital	37,027	37,089
Retained earnings	26,959	26,616
Less shares purchased for stock plans	(2,581)	(2,775)
Treasury Stock, at cost - 623,618 shares at December 31, 2011 and June 30, 2011	(7,091)	(7,091)
Accumulated other comprehensive income:		
Unrealized gain on securities available for sale, net of income taxes	426	452
Total stockholders' equity	54,776	54,327
Total liabilities and stockholders' equity	$ 466,817	472,712

See accompanying notes to the consolidated financial statements.

1

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except share amounts)

(In thousands, except per share data)	For the three months ended December 31, 2011	2010	**For the six months ended December 31,** 2011	2010
Interest income:				
Loans	$3,999	$4,354	$7,897	$8,681
Investments and mortgage - backed securities	701	679	1,490	1,382
Total interest income	4,700	5,033	9,387	10,063
Interest expense:				
Deposits	1,045	1,413	2,183	3,026
Borrowed funds	12	20	26	42
Total interest expense	1,057	1,433	2,209	3,068
Net interest income	3,643	3,600	7,178	6,995
Provision for loan losses	977	737	1,875	1,456
Net interest income after provision for loan losses	2,666	2,863	5,303	5,539
Other income:				
Service charges	621	606	1,260	1,207
Gain on sale of loans	130	215	213	442
Gain on sale of investments	327	—	563	44
Gain (loss) on sale of other real estate owned	2	(27)	2	(25)
Income from Bank Owned Life Insurance	64	70	131	139
Other	61	109	162	161
Total other income	1,205	973	2,331	1,968
Other expense:				
Compensation and employee benefits	1,695	1,687	3,431	3,358
Premises and occupancy expense	310	336	638	645
Deposit insurance premium	77	180	214	408
Advertising expense	114	117	207	218
Data processing expense	311	281	616	563
Acquisition expense	—	—	—	38
Other operating expenses	634	603	1,184	1,225

Total other expense	3,141	3,204	6,290	6,455
Income before income taxes	730	632	1,344	1,052
Income tax provision	199	53	337	202
Net income	$531	$579	$1,007	$850
Basic and diluted earnings per share	$0.07	$0.08	$0.13	$0.11

2

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	For the three months ended December 31,		**For the six months December 31**	
	2011	2010	2011	2010
Net income	$531	$579	$1,007	$850
Other comprehensive income (loss), net of tax Unrealized gain (loss) on available for sale securities	(537)	(716)	317	(445)
Reclassification adjustment for gains on available for sale securities included in income	(199)	—	(343)	(27)
Total comprehensive income (loss)	$(205)	$(137)	$981	$378

See accompanying notes to the consolidated financial statements.

3

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)	(Unaudited) For the six months ended December 31, 2011	2010
Operating activities:		
Net income	$1,007	$850
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	279	266
Amortization of intangible asset	79	217
Provision for loan losses	1,875	1,456
Deferred loan origination fees costs	(89)	(40)
Amortization of premium (discount) on investments	1,151	509
Proceeds from sale of loans	7,002	13,835
Loans disbursed for sale in the secondary market	(6,900)	(14,876)
Gain on sale of loans	(213)	(442)
Amortization of acquisition-related loan yield adjustment	—	(124)
Amortization of acquisition-related credit risk adjustment	—	(102)
Amortization of acquisition-related CD yield adjustment	(15)	(72)
Gain on sale of available for sale investment securities	(563)	(44)
(Gain) loss on sale of other real estate owned	(2)	25
ESOP shares committed to be released	84	(44)
Stock-based compensation expense	48	109
Deferred income taxes	36	(252)
Effects of change in operating assets and liabilities:		
Accrued interest receivable	126	153
Prepaid expenses and other assets	(19)	326
Accrued interest on deposits	(8)	(40)
Accrued expenses and other	(260)	(226)
Net cash provided by operating activities	3,618	1,484
Investing activities:		
Proceeds from maturity of available for sale investment securities	7,500	5,302
Proceeds from sale of available for sale investment securities	20,572	4,044
Proceeds from maturity of held to maturity securities	21	20
Proceeds from repayment of mortgage-backed securities available for sale	11,737	8,729
Proceeds from sale of mortgage-backed securities available for sale	31,012	—
Proceeds from sale of other real estate owned	10	180
Proceeds from sale of Federal Home Loan Bank stock	—	8

Purchases of mortgage-backed securities available for sale	(69,920)	(25,479)
Purchases of available for sale investment securities	(4,009)	(15,143)
Purchases of Federal Home Loan Bank stock	(4,081)	—
Net decrease (increase) in loans	(1,836)	10,085
Increase in cash surrender value of life insurance	(2,254)	(139)
Capital expenditures	(160)	(337)
Net cash used in investing activities	(11,408)	(12,730)
Financing activities:		
Net decrease in deposits	(5,633)	(300)
Repayments of Federal Home Loan Bank advances	(500)	(500)
Dividends paid to stockholders	(664)	(701)
Net increase in advances from borrowers for payment of insurance and taxes	72	67
Net cash used in financing activities	(6,725)	(1,434)
Net decrease in cash and cash equivalents	(14,515)	(12,680)
Cash and cash equivalents at beginning of period	31,159	32,023
Cash and cash equivalents at end of period	$16,644	$19,343

See accompanying notes to the consolidated financial statements.

4

UNITED COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION- United Community Bancorp (the “Company”), a Federally-chartered corporation, is the mid-tier holding company for United Community Bank (the “Bank”), which is a Federally-chartered, FDIC-insured savings bank. The Company was organized in conjunction with the Bank’s reorganization from a mutual savings bank to the mutual holding company structure on March 30, 2006. United Community MHC (the “MHC”), a Federally-chartered corporation, is the mutual holding company parent of the Company. At December 31, 2011, the MHC owned approximately 59% of the Company and must always own at least a majority of the voting stock of the Company. The Company, through the Bank, operates in a single business segment providing traditional banking services through its office and branches in southeastern Indiana. UCB Real Estate Management Holding, LLC is a wholly-owned subsidiary of the Bank. The entity was formed for the purpose of holding assets that are acquired by the Bank through, or in lieu of, foreclosure. UCB Financial Services, Inc, a wholly-owned subsidiary of United Community Bank, was formed for the purpose of collecting commissions on investments referred to Lincoln Financial Group.

The accompanying unaudited consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission, and therefore do not include all information or footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. No other adjustments have been included. The results for the three and six month periods ended December 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2012. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the accompanying notes thereto for the year ended June 30, 2011, which are included on the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 28, 2011.

The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements.

2. PLAN OF CONVERSION AND REORGANIZATION – The Boards of Directors of the MHC and the Company adopted a Plan of Conversion and Reorganization (the “Plan”) on March 10, 2011 as amended and restated on May 12, 2011. Pursuant to the Plan, the MHC will convert from the mutual holding company form of organization to the fully public form. The MHC will be merged into the Company, and the MHC will no longer exist. The Company will merge into a new Indiana corporation named United Community Bancorp. As part of the conversion, the MHC’s ownership interest of the Company will be offered for sale in a public offering. The existing publicly held shares of the Company, which represents the remaining ownership interest in the Company, will be exchanged for new shares of common stock of United Community Bancorp, the new Indiana corporation. The exchange ratio will ensure that immediately after the conversion and public offering, the public shareholders of the Company will own the same

aggregate percentage of United Community Bancorp common stock that they owned immediately prior to that time (excluding shares purchased in the stock offering and cash received in lieu of fractional shares). When the conversion and public offering are completed, all of the capital stock of United Community Bank will be owned by United Community Bancorp, the Indiana corporation.

The Plan provides for the establishment, upon the completion of the conversion, of special “liquidation accounts” for the benefit of certain depositors of United Community Bank in an amount equal to the greater of the MHC’s ownership interest in the retained earnings of the Company as of the date of the latest balance sheet contained in the prospectus or the retained earnings of United Community Bank at the time it reorganized into the MHC. Following the completion of the conversion, under the rules of the Office of the Comptroller of the Currency (“OCC”), United Community Bank will not be permitted to pay dividends on its capital stock to United Community Bancorp, its sole shareholder, if United Community Bank’s shareholder’s equity would be reduced below the amount of the liquidation accounts. The liquidation accounts will be reduced annually to the extent that eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder’s interest in the liquidation accounts.

Direct costs of the conversion and public offering will be deferred and reduce the proceeds from the shares sold in the public offering. If the conversion and public offering are not completed, all costs will be charged to expense in the period in which the public offering is terminated. Costs of $557,000 had been incurred and capitalized related to the conversion as of June 30, 2011. Additional costs of $484,000 have been incurred and capitalized related to the conversion during the six months ended December 31, 2011.

3. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) – As of December 31, 2011 and June 30, 2011, the ESOP owned 202,061 shares of the Company's common stock, which were held in a suspense account until released for allocation to participants.

4. EARNINGS PER SHARE (EPS) –The Company's restricted share awards contain non-forfeitable dividend rights but do not contractually obligate the holders to share in the losses of the Company. Accordingly, during periods of net income, unvested restricted shares are included in the determination of both basic and diluted EPS. During periods of net loss, these shares are excluded from both basic and diluted EPS.

Basic EPS is based on the weighted average number of common shares and unvested restricted shares outstanding, adjusted for ESOP shares not yet committed to be released. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. For each of the three and six month periods ended December 31, 2011 and 2010, outstanding options to purchase 346,304 shares were excluded from the computations of diluted earnings per share as their effect would have not been dilutive. The following is a reconciliation of the basic and diluted weighted average number of common shares outstanding:

	Three Months Ended December 31,		**Six Months Ended December 31,**	
	2011	2010	2011	2010
Basic weighted average outstanding shares	7,638,321	7,631,858	7,638,321	7,631,858
Effect of dilutive stock options	—	—	—	—
Diluted weighted average outstanding shares	7,638,321	7,631,858	7,638,321	7,631,858

5. STOCK-BASED COMPENSATION – The Company applies the provisions of ASC 718-10-35-2, *Compensation-Stock Compensation*, to stock-based compensation, which requires the Company to measure the cost of employee services received in exchange for awards of equity instruments and to recognize this cost in the financial statements over the period during which the employee is required to provide such services. The Company has elected to recognize compensation cost associated with its outstanding stock-based compensation awards with graded vesting on an accelerated basis pursuant to ASC 718-10-35-8. The expense is calculated for stock options at the date of grant using the Black-Scholes option pricing model. The expense associated with restricted stock awards is calculated based upon the value of the common stock on the date of grant. No stock-based compensation awards were granted during the three and six month periods ended December 31, 2011 and 2010.

6. DIVIDENDS – On October 27, 2011 and August 11, 2011, the Board of Directors of the Company declared cash dividends on the Company's outstanding shares of stock of $0.11 per share. The dividends, totaling $664,000 were paid on November 30, 2011 and August 31, 2011, respectively. United Community MHC, which owns 4,655,200 shares of the Company's common stock, waived receipt of the dividends.

6

7. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended December 31,	
	2011	2010
	(Dollars in thousands)	
Supplemental disclosure of cash flow information is as follows:		
Cash paid during the period for:		
Income taxes	$—	$682
Interest	$2,218	$3,109
Supplemental disclosure of non-cash investing and financing activities is as follows:		
Unrealized gains on securities designated as available for sale, net of tax	$(26)	$(472)
Transfers of loans to other real estate owned	$514	$60

8. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES - ASC 820, *Fair Value Measurements and Disclosures*, requires disclosure of the fair value of financial instruments, both assets and liabilities, whether or not recognized in the consolidated balance sheet, for which it is practicable to estimate the value. For financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

The following methods and assumptions are used in estimating the fair values of financial instruments:

<u>Cash and cash equivalents</u>

The carrying values presented in the consolidated statements of position approximate fair value.

<u>Investments and mortgage-backed securities</u>

For investment securities (debt instruments) and mortgage-backed securities, fair values are based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices of comparable instruments.

Loans receivable

The fair value of the loan portfolio is estimated by evaluating homogeneous categories of loans with similar financial characteristics. Loans are segregated by types, such as residential mortgage, commercial real estate, and consumer. Each loan category is further segmented into fixed and adjustable rate interest, terms, and by performing and non-performing categories. The fair value of performing loans, except residential mortgage loans, is calculated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loan. For performing residential mortgage loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources. The fair value for significant non-performing loans is based on recent internal or external appraisals. Assumptions regarding credit risk, cash flow, and discount rates are judgmentally determined by using available market information.

Federal Home Loan Bank stock

The Bank is a member of the Federal Home Loan Bank system and is required to maintain an investment based upon a pre-determined formula. The carrying values presented in the consolidated statements of position approximate fair value.

Deposits

The fair values of passbook accounts, NOW accounts, and money market savings and demand deposits approximate their carrying values. The fair values of fixed maturity certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered for deposits of similar maturities.

Advance from Federal Home Loan Bank

The fair value is calculated using rates available to the Company on advances with similar terms and remaining maturities.

Off-balance sheet items

Carrying value is a reasonable estimate of fair value. These instruments are generally variable rate or short-term in nature, with minimal fees charged.

The estimated fair values of the Company's financial instruments at December 31, 2011 and June 30, 2011 are as follows:

	December 31, 2011		**June 30, 2011**	
	Carrying Amounts	Fair Value	Carrying Amounts	**Fair Value**
	(In thousands)			
Financial assets:				
Cash and due from banks	$16,644	$16,644	$31,159	$31,159
Investment securities available for sale	26,058	26,058	49,230	49,230
Investment securities held to maturity	543	543	564	564
Mortgage-backed securities available for sale	99,768	99,768	74,119	74,119
Loans receivable and loans receivable held for sale	286,016	288,145	286,369	288,198
Accrued interest receivable	1,846	1,846	1,972	1,972
Investment in FHLB stock	6,588	6,588	2,507	2,507
Financial liabilities:				

Deposits	$407,443	$409,471	$413,091	$414,794
Accrued interest payable	38	38	47	47
FHLB advance	1,333	1,358	1,833	1,874
Off-balance sheet items	$—	$—	$—	$—

ASC 820-10-50-2 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value methods and assumptions are set forth below for each type of financial instrument. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 2 securities include U.S. Government and agency mortgage-backed securities, U.S. Government agency bonds, municipal securities, and other real estate owned. If quoted market prices are not available, the Bank utilizes a third party vendor to calculate the fair value of its available for sale securities. The third party vendor uses quoted prices of securities with similar characteristics when available. If such quotes are not available, the third party vendor uses pricing models or discounted cash flow models with observable inputs to determine the fair value of these securities.

Fair value measurements for certain assets and liabilities measured at fair value on a recurring basis:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
December 31, 2011:	(In thousands)			
Mortgage-backed securities	$99,768	$ —	$ 99,768	$ —
U.S. Government corporations and agencies	6,528	—	6,528	—
Municipal bonds	19,400	—	19,400	—
Other equity securities	130	130	—	—
June 30, 2011:				
Mortgage-backed securities	$74,119	$ —	$ 74,119	$ —
U.S. Government corporations and agencies	28,856	—	28,856	—
Municipal bonds	20,244	—	20,244	—
Other equity securities	130	130	—	—

Fair value measurements for certain assets and liabilities measured at fair value on a nonrecurring basis:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
December 31, 2011:	(In thousands)			
Other real estate owned	$645	$ —	$ 645	$ —
Loans held for sale	307	—	307	—
Impaired loans	8,635	—	8,635	—
June 30, 2011:				
Other real estate owned	$139	$ —	$ 139	$ —
Loans held for sale	196	—	196	—
Impaired loans	3,823	—	3,823	—

The adjustments to other real estate owned and impaired loans are based primarily on appraisals of the real estate, cash flow analysis or other observable market prices. The Bank's policy is that fair values for these assets are based on current appraisals or cash flow analysis.

9

9. INVESTMENT SECURITIES

Investment securities available for sale at December 31, 2011 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(In thousands)			
Mortgage-backed securities	$100,132	$ 272	$ 636	$99,768
U.S. Government corporations and agencies	6,514	14	—	6,528
Municipal bonds	18,262	1,144	6	19,400
Other equity securities	210	—	80	130
	$125,118	$ 1,430	$ 722	$125,826

Investment securities held to maturity at December 31, 2011 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(In thousands)			
Municipal bonds	$543	—	—	$ 543

Investment securities available for sale at June 30, 2011 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(In thousands)			
Mortgage-backed securities	$73,827	$ 364	$ 72	$74,119
U.S. Government corporations and agencies	28,817	39	—	28,856
Municipal bonds	19,744	544	44	20,244
Other equity securities	210	—	80	130
	$122,598	$ 947	$ 196	$123,349

Investment securities held to maturity at June 30, 2011 consist of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(In thousands)			
Municipal bonds	$564	$ —	$ —	$ 564

10

The mortgage-backed securities, callable bonds and municipal bonds available for sale have the following maturities at December 31, 2011:

	Amortized cost	Estimated market value
	(In thousands)	
Due or callable in one year or less	$6,514	$6,528
Due or callable in 1 - 5 years	75,796	75,655
Due or callable in 5 - 10 years	29,539	29,712
Due or callable in greater than 10 years	13,059	13,801
Total debt securities	$124,908	$125,696

All other securities available for sale at December 31, 2011 are saleable within one year. The Bank held $543,000 and $564,000 in investment securities that are being held to maturity at December 31, 2011 and June 30, 2011, respectively. The investment securities held to maturity have annual returns of principal and will be fully matured between 2014 and 2019.

The expected returns of principal of investments held to maturity are as follows as of December 31, 2011 (dollars in thousands):

January 1, 2012 through June 30, 2012	$47
2013	71
2014	74
2015	77
2016	81
2017 and thereafter	193
	$543

Gross proceeds on the sale of investment and mortgage-backed securities were $26.0 million and $-0- for the three month periods ended December 31, 2011 and 2010, respectively. Gross proceeds on the sale of investment and mortgage-backed securities were $51.6 million and $4.0 million for the six month periods ended December 31, 2011 and 2010, respectively. Gross realized gains for the three month periods ended December 31, 2011 and 2010 were $327,000 and $-0-, respectively. Gross realized gains for the six month periods ended December 31, 2011 and 2010 were $563,000 and $44,000, respectively. There were no gross realized losses for the three and six month periods ended December 31, 2011 and 2010.

The table below indicates the length of time individual investment securities and mortgage-backed securities have been in a continuous loss position at December 31, 2011:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Mortgage-backed securities	74,093	636	—	—	74,093	636
Municipal bonds	1,636	6	—	—	1,636	6
Other equity securities	—	—	130	80	130	80
	$75,729	642	$ 130	80	$75,859	722
Number of investments	20		1		21	

Securities available for sale are reviewed for possible other-than-temporary impairment on a quarterly basis. During this review, management considers the severity and duration of the unrealized losses as well as its intent and ability to hold the securities until recovery, taking into account balance sheet management strategies and its market view and outlook. Management also assesses the nature of the unrealized losses taking into consideration factors such as changes in risk-free interest rates, general credit spread widening, market supply and demand, creditworthiness of the issuer or any credit enhancement providers, and the quality of the underlying collateral. Management does not intend to sell these securities in the foreseeable future, and does not believe that it is more likely than not that the Bank will be required to sell a security in an unrealized loss position prior to a recovery in its value. The decline in market value is due to changes in market interest rates. The fair values are expected to recover as the securities approach maturity dates.

10. GOODWILL AND INTANGIBLE ASSET

In June 2010, the Company acquired three branches from Integra Bank National Association (“Integra”), which was accounted for under the purchase method of accounting. Under the purchase method, the Company is required to allocate the cost of an acquired company to the assets acquired, including identified intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. The excess cost over the value of net assets acquired represents goodwill, which is not subject to amortization.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill recorded by the Company in connection with its acquisition relates to the inherent value in the business acquired and this value is dependent upon the Company’s ability to provide quality, cost-effective services in a competitive market place. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods.

Goodwill is not amortized but is tested for impairment when indicators of impairment exist, or at least annually. Potential goodwill impairment exists when the fair value of the reporting unit (as defined by U.S. GAAP) is less than its carrying value. An impairment loss is recognized in earnings only when the carrying amount of goodwill is less than its implied fair value.

The following table indicates changes to the core deposit intangible asset and goodwill balances for the six month period ended December 31, 2011:

	Core Deposit Intangible	**Goodwill**
	(dollars in thousands)	
Balance at June 30, 2011	$1,028	$ 2,522
Amortization	(79)	—
Balance at December 31, 2011	$949	$ 2,522

The core deposit intangible is being amortized using the double declining balance method over its estimated useful life of 8.75 years. Remaining amortization of the core deposit intangible is as follows (dollars in thousands) as of

December 31, 2011:

January 1, 2012 through June 30, 2012	$80
2013	179
2014	142
2015	118
2016	118
2017 and thereafter	312
	$949

12

11. DISCLOSURES ABOUT THE CREDIT QUALITY OF LOANS RECEIVABLE AND THE ALLOWANCE FOR LOAN LOSSES (IN THOUSANDS)

The following table illustrates certain disclosures required by ASC 310-10-50-11B(c), (g) and (h).

Allowance for Credit Losses and Recorded Investment in Loans Receivable

For the three and six months ended December 31, 2011 (in thousands):

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Balance, October 1, 2011:	$ 707	$ 311	$ 173	$ 2,952	$ 1,470	$ 3	$ 13	$ 23	$ 5,652
Charge offs	33	(3)	—	1,142	160	—	—	—	1,332
Recoveries	4	3	—	—	1	—	—	—	8
Provision	147	—	7	726	91	(1)	(1)	8	977
Ending Balance:	$ 825	$ 317	$ 180	$ 2,536	$ 1,402	$ 2	$ 12	$ 31	$ 5,305
Balance, July 1, 2011:	$ 800	$ 310	$ 112	$ 2,314	$ 1,462	$ 3	$ 12	$ 26	$ 5,039
Charge offs	200	36	—	1,233	160	—	—	—	1,629
Recoveries	6	11	—	1	1	—	—	1	20
Provision	219	32	68	1,454	99	(1)	—	4	1,875
Ending Balance:	$ 825	$ 317	$ 180	$ 2,536	$ 1,402	$ 2	$ 12	$ 31	$ 5,305
Balance, Individually Evaluated	$ 18	$ —	$ 8	$ 1,069	$ 145	$ —	$ —	$ —	$ 1,240
Balance, Collectively Evaluated	$ 807	$ 317	$ 172	$ 1,467	$ 1,257	$ 2	$ 12	$ 31	$ 4,065
Financing receivables:									
Ending Balance	$ 118,739	$ 36,981	$ 17,673	$ 43,290	$ 62,720	$ 707	$ 3,727	$ 6,780	$ 290,617
	$ 4,669	$ 1,333	$ 477	$ 7,535	$ 4,441	$ —	$ —	$ —	$ 18,455

Ending Balance: individually evaluated for impairment									
Ending Balance: collectively evaluated for impairment	$ 98,547	$ 29,387	$ 16,310	$ 35,270	$ 51,990	$ 707	$ 3,559	$ 4,782	$ 240,552
Ending Balance: loans acquired with deteriorated credit quality	$ 15,523	$ 6,261	$ 886	$ 485	$ 6,289	$ —	$ 168	$ 1,998	$ 31,610

13

Allowance for Credit Losses and Recorded Investment in Loans Receivable

For the year ended June 30, 2011 (in thousands):

	One- to Four- Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Allowance for Credit Losses:									
Balance, July 1, 2010:	$ 419	$ 908	$ —	$ 2,863	$ 1,256	$ 4	$ 10	$ 221	$ 5,681
Charge offs	803	959	—	2,008	3,065	—	—	38	6,873
Recoveries	26	15	—	—	7	—	—	1	49
Provision	1,158	346	112	1,459	3,264	(1)	2	(158)	6,182
Ending Balance:	$ 800	$ 310	$ 112	$ 2,314	$ 1,462	$ 3	$ 12	$ 26	$ 5,039
Balance, Individually Evaluated	$ 18	$ —	$ —	$ 1,277	$ —	$ —	$ —	$ —	$ 1,295
Balance, Collectively Evaluated	$ 782	$ 310	$ 112	$ 2,314	$ 1,462	$ 3	$ 12	$ 26	$ 3,744
Financing receivables:									
Ending Balance	$ 112,902	$ 36,639	$ 18,251	$ 46,296	$ 65,156	$ 1,084	$ 3,985	$ 6,521	$ 290,834
Ending Balance: individually evaluated for impairment	$ —	$ —	$ 531	$ 11,223	$ 4,545	$ 167	$ —	$ —	$ 16,466
Ending Balance: collectively evaluated for impairment	$ 97,258	$ 29,640	$ 16,744	$ 34,568	$ 53,694	$ 917	$ 3,743	$ 4,183	$ 240,747
Ending Balance: loans acquired with deteriorated credit quality	$ 15,644	$ 6,999	$ 976	$ 505	$ 6,917	$ —	$ 242	$ 2,338	$ 33,621

14

The following tables illustrate certain disclosures required by ASC 310-10-50-29(b).

Credit Risk Profile by Internally Assigned Grade

At December 31, 2011

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Grade:									
Pass	$ 105,524	$ 35,816	$ 12,444	$ 17,430	$ 30,779	$ 28	$ 2,681	$ 5,037	$ 209,739
Watch	7,051	789	3,304	9,886	15,372	479	1,007	1,349	39,237
Special mention	225	13	875	—	8,187	—	39	—	9,339
Substandard	5,939	363	1,050	15,974	8,382	200	—	394	32,302
Doubtful	—	—	—	—	—	—	—	—	—
Total:	$ 118,739	$ 36,981	$ 17,673	$ 43,290	$ 62,720	$ 707	$ 3,727	$ 6,780	$ 290,617

Credit Risk Profile by Internally Assigned Grade

At June 30, 2011

	One- to Four-Family Owner-Occupied Mortgage	Consumer	One- to Four-family Non-owner Occupied Mortgage	Multi-family Non-owner Occupied Mortgage	Non-Residential Real estate	Construction	Land	Commercial and Agricultural	Total
Grade:									
Pass	$ 100,380	$ 35,893	$ 13,234	$ 17,140	$ 36,307	$ 273	$ 2,663	$ 4,208	$ 210,098
Watch	6,805	378	2,865	13,023	11,845	644	1,322	1,911	38,793
Special mention	1,002	127	1,030	1,593	9,573	—	—	163	13,488
Substandard	4,715	241	1,122	14,540	7,431	167	—	239	28,455
Total:	$ 112,902	$ 36,639	$ 18,251	$ 46,296	$ 65,156	$ 1,084	$ 3,985	$ 6,521	$ 290,834

The following tables illustrate certain disclosures required by ASC 310-10-50-7A for gross loans.

Age Analysis of Past Due Loans Receivable

At December 31, 2011

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
Mortgage One- to Four- Family - Owner-Occupied	$2,631	$430	$934	$3,995	$114,744	$118,739
Consumer	240	14	143	397	36,584	36,981
One- to Four- Family Non-Owner Occupied Mortgage	511	44	3	558	17,115	17,673
Multifamily Residential Real Estate Mortgage	—	—	—	—	43,290	43,290
Non-Residential Real Estate	308	217	984	1,509	61,211	62,720
Construction	—	—	—	—	707	707
Land	81	40	—	121	3,606	3,727
Commercial and Agricultural	97	92	267	456	6,324	6,780
Total	$3,868	$837	$2,331	$7,036	$283,581	$290,617

Age Analysis of Past Due Loans Receivable

At June 30, 2011

	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Total current	Total loans receivable
Mortgage One- to Four- Family - Owner-Occupied	$978	$995	$939	$2,912	$109,990	$112,902
Consumer	425	187	54	666	35,973	36,639
One- to Four- Family Non-Owner Occupied Mortgage	177	98	301	576	17,675	18,251
Multifamily Residential Real Estate Mortgage	—	—	—	—	46,296	46,296
Non-Residential Real Estate	732	307	—	1,039	64,117	65,156
Construction	—	—	—	—	1,084	1,084
Land	—	—	—	—	3,985	3,985
Commercial and Agricultural	240	—	204	444	6,077	6,521
Total	$2,552	$1,587	$1,498	$5,637	$285,197	$290,834

The following table illustrates certain disclosures required by ASC 310-10-50-15.

Impaired Loans

				For the three months ended December 31, 2011		For the six months ended December 31, 2011	
	Recorded investment	Unpaid principal balance	Specific allowance	Interest income recognized	Average Recorded investment	Interest income recognized	Average Recorded investment
With a related allowance recorded:							
Mortgage One- to Four- Family - Owner-Occupied	$ —	$ —	$ —	$—	$ —	$—	$ —
Consumer	—	—	—	—	—	—	—
One- to Four- Family Non-Owner Occupied Mortgage	—	—	—	—	—	—	—
Multifamily Residential Real Estate Mortgage	1,735	2,135	400	36	1,736	85	1,501
Non-Residential Real Estate	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—

Land	—	—	—	—	—	—	—
Commercial and Agricultural	—	—	—	—	—	—	—
Total	$ 1,735	$ 2,135	$ 400	$ 36	$ 1,736	$ 85	$ 1,501

Impaired Loans

				For the three months ended December 31, 2011		For the six months ended December 31, 2011	
	Recorded investment	Unpaid principal balance	Specific allowance	Interest income recognized	Average Recorded investment	Interest income recognized	Average Recorded investment
With no related allowance recorded:							
Mortgage One- to Four- Family - Owner-Occupied	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer	—	—	—	—	—	—	—
One- to Four- Family Non-Owner Occupied Mortgage	—	—	—	—	—	—	—
Multifamily Residential Real Estate Mortgage	—	—	—	—	—	—	—
Non-Residential Real Estate	578	711	—	—	578	—	578
Construction	—	—	—	—	—	—	—
Land	—	—	—	—	—	—	—
Commercial and Agricultural	—	—	—	—	—	—	—
Total	$ 578	$ 711	$ —	$ —	$ 578	$ —	$ 578

Impaired Loans

	Recorded investment	Unpaid principal balance	Specific allowance	For the three months ended December 31, 2011 Interest income recognized	For the three months ended December 31, 2011 Average Recorded investment	For the six months ended December 31, 2011 Interest income recognized	For the six months ended December 31, 2011 Average Recorded investment
Total:							
Mortgage One- to Four- Family - Owner-Occupied	$ —	$ —	$ —	$—	$ —	$—	$ —
Consumer	—	—	—	—	—	—	—
One- to Four- Family Non-Owner Occupied Mortgage	—	—	—	—	—	—	—
Multifamily Residential Real Estate Mortgage	1,735	2,135	400	36	1,736	85	1,501
Non-Residential Real Estate	578	711	—	—	578	—	578
Construction	—	—	—	—	—	—	—
Land	—	—	—	—	—	—	—
Commercial and Agricultural	—	—	—	—	—	—	—
Total	$ 2,313	$ 2,846	$ 400	$36	$ 2,314	$85	$ 2,079

	Recorded investment	Unpaid principal balance	Specific allowance	For the year ended June 30, 2011 Interest income recognized	For the year ended June 30, 2011 Average Recorded investment
With a related allowance recorded:					
Mortgage One- to Four- Family - Owner-Occupied	$ 26	$ 44	$ 18	$1	$ 26
Consumer	—	—	—	—	—
One- to Four- Family Non-Owner Occupied Mortgage	—	—	—	—	—
Multifamily Residential Real Estate Mortgage	3,797	5,074	1,277	80	1,266
Non-Residential Real Estate	—	—	—	—	—
Construction	—	—	—	—	—
Land	—	—	—	—	—
Commercial and Agricultural	—	—	—	—	—
Total	$ 3,823	$ 5,118	$ 1,295	$81	$ 956

The Bank did not have any investments in subprime loans at December 31, 2011.

12. TROUBLED DEBT RESTRUCTURINGS - From time to time, as part of our loss mitigation process, loans may be renegotiated in a troubled debt restructuring ("TDR") when we determine that greater economic value will ultimately be recovered under the new restructured terms than through foreclosure, liquidation, or bankruptcy. We may consider the borrower's payment status and history, the borrower's ability to pay upon a rate reset on an adjustable rate mortgage, size of the payment increase upon a rate reset, period of time remaining prior to the rate reset, and other relevant factors in determining whether a borrower is experiencing financial difficulty. TDRs are accounted for as set forth in ASC 310-40 *Troubled Debt Restructurings by Creditors* ("ASC 310-40"). A TDR may be on non-accrual or it may accrue interest. A TDR is typically on non-accrual until the borrower successfully performs under the new terms for six consecutive months. However, a TDR may be placed on accrual immediately following the TDR in those instances where a borrower's payments are current prior to the modification, the loan is restructured at a market rate and management determines that principal and interest under the new terms are fully collectible. All TDRs are considered to be impaired loans.

Existing performing loan customers who request a loan (non-TDR) modification and who meet the Bank's underwriting standards may, usually for a fee, modify their original loan terms to terms currently offered. The modified terms of these loans are similar to the terms offered to new customers with similar credit risk. The fee assessed for modifying the loan is deferred and amortized over the life of the modified loan using the level-yield method and is reflected as an adjustment to interest income. Each modification is examined on a loan-by-loan basis and if the modification of terms represents more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs associated with the mortgage loan are recognized in interest income at the time of the modification. If the modification of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-modification deferred fees or costs continue to be deferred.

During the quarter ended March 31, 2011, we began restructuring loans into a split note or Note A/Note B format. Upon performing a global analysis of the relationship with the borrower, the terms of Note A are calculated using current financial information to determine the amount of payment at which the borrower would have a debt service coverage ratio of 1.5x or better. The resulting payment was calculated based upon a 30 year amortization period, then fixed for two years, with the loan maturing at the end of the two years. The amount for Note B is the difference of Note A and the original amount to be refinanced, plus all other expenses necessary to restructure the loans. It is given the same interest rate and balloon term as Note A, but no principal or interest payments are due until maturity. While no amount of the original indebtedness of the borrower is forgiven through this process, the full amount of Note B is charged-off. Note A is treated as any other troubled debt restructuring and, generally, may return to accrual status after a history of performance in accordance with the restructured terms of at least six consecutive months is established.

The following tables summarize TDRs by loan type and accrual status.

At
December
31, 2011